Chairman's Statement 1974

Anglo American Corporation of South Africa Limited

Statement by the Chairman Mr H. F. Oppenheimer

To be read in conjunction with the Corporation's annual report and accounts for 1973

The year 1973 has been a successful one for the Anglo American Corporation, in spite of–and to some extent even because of–the grave difficulties and uncertainties of the world economic situation. The continued failure of the great powers to solve world monetary problems, and the fact that the present inflationary outlook makes these problems still more intractable, have accentuated the demand for gold, leading to record prices with obvious advantages to a major gold producer. Nevertheless the continuance of unsettled economic conditions cannot fail to be an adverse influence in many ways on the affairs of a group as broadly based as ours. The Arab-Israeli war and the energy crisis which it triggered off had a depressing, though fortunately temporary, effect on the diamond trade on which we depend for a significant part of our income. On the other hand, the long-range effects of much higher oil prices cannot but be favourable for our interests in coal and uranium.

The consolidated profit of the Corporation after tax increased by 27,5 per cent to R58,2 million in 1973, and after deducting R286 000 in respect of the preference dividend, our earnings amounted to 44,6 cents an ordinary share out of which ordinary dividends of 24 cents a share were paid, which was five cents or 26 per cent more than in 1972. Since a substantial part of our investments consists of shares in companies which do not distribute their profits in full, the equity earnings I have reported do not fully reflect the year's results. If the Corporation's share of the undistributed profits of these companies were to be included, after allowing for cross-holdings, our total earnings would be approximately 94 cents a share, compared with 64 cents in 1972 and 55 cents in 1971. The value of the Corporation's quoted investments fell during the year by R49 million to R1 114 million, owing largely to the lower market prices prevailing in December. Subsequently, however, there has been an improvement and on 29th March 1974 the market value of our quoted investments was R1 488 million. The estimated value of our unquoted investments exceeded the book value by approximately R60 million.

The action of the oil-producing states is likely to have wide repercussions in many developing countries whose economies are largely dependent on the extractive industries, and our Group must give careful attention to the new situation. Whatever may be thought of the wisdom or propriety of the use of oil as a political weapon in the specific circumstances of the Middle East war, I do not see that objection can properly be taken to actions by governments, or indeed by private industry acting in accordance with national policy, to conserve natural resources by controlling the rate of depletion and to secure a fair price for them, provided that such action is pursued with a sense of responsibility and not carried to the point where it creates economic chaos or becomes self-defeating by encouraging new technology and the development of alternative materials.

The argument that prices should be determined solely by the interplay of supply and demand in a competitive situation and that production should take place at the maximum rate which the market price makes profitable is surely of very doubtful validity when applied to resources of which the total quantity is limited, especially when those resources are, and will be for a long time to come, the mainstay of the producing countries and often their only means of escaping from a situation of grinding poverty. In general a policy of regulating supply in order to conserve mineral resources is for many reasons, including the world-wide effects of the United States anti-trust legislation, very difficult to apply unless it is supported by the governments of the producing countries. This concern for conservation is bound to have an influence on the relationship between large international mining groups such as ours and the host countries.

It has become usual in most developing countries for the government to seek a direct interest in major new ventures, particularly mining ventures, generally by way of a 'free ride'. In effect this is simply another form of taxation and in my view it is much better than the royalty payments which were often required in the past because the imposition of a charge per unit of output is, in principle, undesirable since it adds directly to costs and can have the effect of making otherwise workable deposits unpayable. While governments can obtain a similar effect to a free interest in the equity through the imposition of a special profits tax, there are valid reasons why governments in many cases should prefer the former. No government likes its basic industries to be entirely foreign-owned and yet in many developing countries individual members of the public either do not have the resources to invest in industry or, for ideological reasons, are prevented from doing so. The only alternative in such cases to full foreign ownership is for government to take a direct interest. In these circumstances we willingly accept a partnership between the government as owners

of the mineral rights and private companies that can provide the necessary financial resources and administrative and technical know-how. I would judge that until recently the principal reasons that induced governments to acquire direct shareholdings in mining companies were a concern for political prestige and a desire to exercise through representation on the board a measure of direct control over the companies' actions insofar as they might affect the level of employment and the political and social environment. To these motives there will now be added a determination to prevent scarce natural resources from being rapidly exhausted in order to provide cheap raw materials for the affluent developed nations of the world.

In these circumstances a group like ours must be prepared to accept, provided it is wisely exercised, a greater measure of direct government participation and control in the enterprises we undertake in developing countries. On the other hand, governments that wish to attract capital and administrative and technical know-how must be prepared to allow profits to be made and to be paid out on a scale which is commensurate with the real value of this know-how and with the high risks inseparable from mining. Governments cannot expect to be able to become full partners in the enterprise free of charge and at the same time to levy high discriminatory taxation on mining. In my opinion the best relationship between governments and private shareholders will be achieved where the taxation payable by mining companies is at the standard rate applicable throughout industry, and where the state obtains any additional return, as owner of the mineral rights, by way of an equity participation carrying representation on the board. The extent of that participation, and whether it should be wholly or partly free, should be determined by negotiation in the light of profit expectations at the time when the decision to go ahead is taken.

It is most important that such an agreement, when entered into, should be looked upon by both sides as the beginning of a permanent partnership, and that its contents should not be subject to change without the willing consent of each party. If this is not the case business is placed in the highly invidious position that failures are its own affair, while the rewards of success are eroded because governments deem it right to increase their claims on the profits. Instances of governments agreeing to some relief in the tax situation have generally occurred only when there is no alternative to closing the venture down. It is hardly a coincidence that South Africa has a highly developed mining industry and a history of governments which, whatever their political complexion, have followed a course of stability and restraint in matters of tax and corporate legislation.

SOUTH AFRICAN ECONOMY

In 1973 there was a great improvement in the domestic economic situation as compared with the relatively stagnant years of 1971 and 1972. South Africa's real gross national product increased by no less than 8,5 per cent last year, one of the highest rates on record. It is, however, important to bear in mind that a significant part of this increase is due to an improvement in the terms of trade, notably the vastly increased earnings from gold but also as a result of higher export prices for other raw and partially processed materials. The process has been facilitated by cheap power based on coal, which in present circumstances is of course a major asset. It now remains to be seen to what extent South Africa is going to be able to translate the financial gains arising from our improved export situation into greater domestic activity and employment.

Clearly the mining and mining-based industries have a great contribution to make, and one that will have long-term structural implications for labour usage and other aspects of the economy. Fortunately the economy is already sufficiently diversified to provide ample scope for responding to the opportunities that are offered by higher export earnings and the prospect of a record agricultural year. In addition the buoyant revenues of the central government—again largely attributable to the gold mining industry—will certainly facilitate the further development of the country's infrastructure and allow the government to alleviate the inflationary hardships from which South Africa cannot easily escape.

The government's commitment to growth, and the changing approach to the training and use of Black labour, have already shown encouraging results in the productivity of manufacturing industry. This, together with the increasing rate of investment in mining and other industries in the private sector, is an important feature of the current phase of business, implying that the upward cycle may be sustained for much longer than in the past—a prospect that in itself would reinforce confidence and thus help to bring about the desired result. This is not to suggest, of course, that the situation is without its difficulties, or that control of the level of spending will be straightforward merely because the balance of payments for once should not be an inhibiting factor. The authorities obviously will not have an easy task in managing what may well become an over-exuberant economy.

RAND SELECTION

On 28th March the boards of Rand Selection and Schlesinger Insurance and Institutional Holdings announced that they had reached agreement in principle whereby, subject to the approval of the authorities and the required increase in its authorised capital, Rand Selection would offer to acquire Schlesinger on the basis of one new share in Rand Selection for each nine Schlesinger shares. Shareholders would be entitled to offer 20 per cent of the new Rand Selection shares to Anglo American for cash at a price of 2 250 cents a share. The controlling shareholders of Schlesinger have agreed to accept the offer in respect of their holdings, and have indicated that they will not take up the cash alternative. Should this offer succeed it will mean that the present Schlesinger interests will represent about 20 per cent of Rand Selection. There may then be a case for considering

some degree of rationalisation in regard to such interests of the two groups as are complementary. In the main, however, the scheme represents an expansion of Rand Selection into the new field of life insurance, so broadening the company's base and opening up important new business opportunities. The relevant documents are being issued in the near future.

GOLD

The virtual doubling of the price of gold in the past year to the current level of around $170 an ounce is an event of the utmost significance. The relatively high levels ruling in the early part of 1973 marked the continuation of a trend that had been gradually accelerating since the end of 1970, and which was interrupted for only a brief period in 1972 before it was given renewed impetus by the severe monetary disturbances and the second devaluation of the dollar early in 1973. At the time it seemed that the exceptional buoyancy of the gold market, which reflected the resumption of speculative buying on a growing scale, was due in large measure to the weakness of the dollar. This impression was sustained in the period from July to November: as the dollar recovered and international currency nervousness began to be allayed the gold price fell from its peak and showed little reaction to the Middle East war.

However, the spectacular rise in the price from early December indicated that more fundamental factors were at work. The strength of demand reflected a basic reaction to the staggering payments problems posed by, and the inflationary implications of, the actions of the oil-producing states. In the new circumstances, with their widespread challenge to accepted patterns of economic life in the western world, a new appreciation of gold, both as an industrial and as a monetary metal, has emerged. Even before then it had become extremely doubtful whether the essential conditions for an SDR-based system of monetary reform would ever have been met, and it is evident that the future course of international monetary policies must be dictated by pragmatic, rather than theoretical, considerations. The demand for gold, coupled with the fact that central banks obviously will not part with it unless a new system of settlement at realistic prices can be instituted, are surely good auguries for its future.

Turning now to the South African gold mining industry, it produced 852 325 kilograms of gold in 1973, which was six per cent less than in 1972. Tonnage milled increased but the higher gold price made it economic to mine lower grade ore, with the result that the industry's average yield of gold per ton milled fell to 11,42 grams from 12,69 grams in 1972. However the quantity of South African gold that reached the market increased to 819 tons from 716 tons in 1972, because of lower retentions by the South African Reserve Bank.

The mines of the Anglo American Corporation Group milled a marginally higher tonnage last year but because the average grade declined the production of gold fell by seven per cent to 346 000 kilograms. Despite the fall in gold production and the accelerated inflation of costs, the increase in the average price of gold received by our mines resulted in an increase of 74,5 per cent in working profit to a total of R436 million. Dividends paid, excluding inter-company payments, rose from R89,5 million to R134 million in 1973. Taxation and the share of profits paid to the State increased much more sharply, by 125 per cent to R245 million.

I referred last year to our extensive exploration programme to establish whether the known reefs in certain areas within or contiguous to mining leases could be exploited at various levels of the gold price. Important results have already been obtained from this programme. Drilling carried out in the area to the south of Western Deep Levels has led to the decision to establish a major new mine, to the south and west of Western Deep Levels, where the mineral rights are held mainly by our Group. An application for a mining lease will be submitted in the next few months. The mine will exploit the Ventersdorp Contact Reef down to 3 000 metres and below, and production should start in the early 1980's. In the adjoining area, where the rights are held mainly by a company in the Gold Fields group, drilling has established the viability of another major mine, in which our Group will have a participation.

Drilling programmes are also being conducted in other areas. In the Orange Free State the old Jeannette mine is being investigated to establish the price at which mining could again be viable. At Free State Saaiplaas the drilling is expected to determine whether the area across the fault west of existing workings should be exploited by sinking a shaft. Drilling continues at Freddies and results so far encourage the view that this mine could have a long life as a low-grade producer. On the Far East Rand in the Transvaal a drilling programme is being undertaken to determine whether the gold deposits in shoots in the southern area of the Sallies mine and on the farm Witpoortje, adjoining the western boundary, warrant a new mine.

Our exploration activities are being intensified in 1974. So are the efforts of other mining houses and in consequence every drill rig in the country is in use and many more are on order. I firmly believe that we are entering a new era in gold mining in South Africa. It must be borne in mind, however, that the process of exploration and development has to be measured in years. In the meantime the lives of all the gold mines have been lengthened to one degree or another, depending on the amount of lower grade ore available. Three mines in our Group that were expected to have closed by now are still in production. On the Far East Rand, East Daggafontein hopes to continue mining into the second quarter of 1975, and Sallies' life has now been extended at least until 1977. Saaiplaas was due to close in March but it now looks as if operations in the present area could continue for another three or four years, quite apart from the possibility of exploiting the western area.

We had hoped that the escalation in costs, which on our mines reached a rate of nearly 23 per cent in 1973, would diminish this year but prospects of further inflation, particularly those attributable to the oil crisis,

make this uncertain. Oil products are not extensively used on the gold mines, and some substitution is already taking place, for instance through the replacement of diesel locomotives by electrically-powered vehicles. Nevertheless the price of oil affects the price of virtually all equipment and stores, and though everything is being done to contain costs, a rate of escalation higher than the historic norm may well be inevitable in the next few years.

DIAMONDS

Despite the recession in the market that occurred in the last quarter of 1973, sales of gem and industrial diamonds by the Central Selling Organization established a new record of R921 million, which was 40,5 per cent higher than in 1972, the previous record year. Net consolidated profits attributable to De Beers increased by 46 per cent to R237,5 million, which was also a record, and earnings on the deferred shares rose from 45,2 cents to 66,1 cents a share. The dividend was raised by six cents to 24 cents a share. The prices of gem diamonds were increased on four occasions, partly in response to the strength of demand and partly to take account of the devaluation of the dollar. Production by the De Beers group increased by 209 000 carats to 10,8 million carats, mainly as a result of higher output from the Koffiefontein, Premier and Namaqualand mines. Although stocks of diamonds at cost were still rather high at R215,5 million, compared with R222,6 million at the end of 1972, in relation to sales they showed a further significant decline over the year. In February De Beers reached agreement in principle with the Government of Lesotho to open the Letseng-la-Terae mine in the Maluti mountains of the north-east, at a capital cost, including infrastructure, of some R20 million. In recent months the diamond market has shown strong signs of recovery, with the demand for small diamonds particularly firm. If current trends continue, sales by the Central Selling Organisation are expected to maintain the record level of 1973.

COAL

Sales of coal and coke by the thirteen South African collieries of the Group rose by more than 12 per cent to 20,1 million tons in 1973. However, the industry continued to experience a rapid rate of cost inflation, and the necessary increase in the controlled selling prices came so late that the aggregate working profit from the higher sales remained unchanged at approximately R11,0 million. One constructive effect of the energy crisis has been to focus attention on the need to make optimum use of South Africa's coal reserves. To raise the extraction rate substantially will require a greater degree of mechanisation underground and a more widespread use of open-cast techniques. The country's major coal consumer, the Electricity Supply Commission (Escom), certainly appreciates the situation and in consequence we have been able to renegotiate the Arnot contract on terms that provide for the introduction of open-cast methods on a major scale. In addition, Escom has accepted Anglo Power Collieries' offer to renegotiate the Kriel contract on the basis that open-cast methods will be adopted throughout the coalfield, in order to maximise the reserves.

The energy crisis has increased the demand for coal in the domestic market and the outlook for exports is encouraging. The low-ash coal contract with the Japanese has been successfully renegotiated and the industry has decided to go ahead with the installation of the coal-handling plant at Richards Bay. There has been considerable overseas interest in all types of South African coal, and it is anticipated that once the export route through Richards Bay becomes available in 1976, exports of nine million tons of coal a year will be achieved. The industry is being called upon to invest on a substantial scale to provide additional productive capacity, major coal-handling facilities, and improve the working and living conditions of its employees. The rate of return effectively allowed to producers is inadequate to finance these developments, and indeed positively discourages new production of coal for the South African market. It is now a matter of broad national interest that the government, in reformulating energy policy, should introduce a pricing system that encourages the industry to provide for the substantial growth in domestic coal consumption that is envisaged, and enable producers to take advantage, without prejudice to domestic needs, of the export opportunities that will arise.

INDUSTRY

The economic climate in South Africa in 1973 favoured industrial growth, despite the shortages which developed in a wide variety of commodities and manufactured goods. Although rising costs were absorbed to some extent by the higher volume of output, it was inevitable that prices would have to be increased. The rapid growth in earnings that resulted must be seen in relation to the preceding period of stagnation, and to the cost of financing production and replacing fixed assets at rapidly inflating prices.

With strong markets for its products and record levels of production, Highveld Steel and Vanadium Corporation achieved a most creditable net profit of R7 495 000 for the year ended June 1973, compared with a loss of R1 635 000 previously, and in August declared a maiden dividend of five cents a share. In the six months to December Highveld earned R5 454 000, and the prospects are that it should be able to maintain that performance during the second half of its financial year. Scaw Metals managed to maintain effective control of its costs in a sector of industry where the pressures have been particularly severe, and increased its profits by R2 595 000 to R7 102 000 in 1973.

I am pleased to report that the consolidated profit earned by the Boart group recovered sharply to R5,23 million from R1,45 million in 1972. The group is engaged in a major rationalisation of its international operations and in South Africa is extending its manufacturing facilities to meet the increasing demand, locally and overseas, for tungsten carbide components. Boart's

diamond drilling interests in Southern Africa and North America are well placed to participate in the growing scale of prospecting for precious and base metals in those areas.

Good progress has been made by the Group's major construction associate, LTA. In a year which was not without problems for the industry LTA increased its net profit by 40 per cent to R2 049 000. Reflecting that improvement, and its confidence in future operations, the board resumed the payment of ordinary dividends with a declaration of five cents a share.

Mondi Paper Company earned a maiden profit in 1973. It was faced with substantial increases in the costs of most raw materials, particularly imported chemical pulp, though in the main it was able to offset these cost increases by improved efficiency and rises in the prices of most grades of paper on the international and local markets. After protracted negotiations the Newspaper Press Union of South Africa agreed to an increase in the price of newsprint to R155 a ton ex mill, equivalent to R170 a ton delivered throughout the Republic; this compares with the previous delivered price of R136 a ton until mid-year and R140 a ton thereafter. World demand for newsprint has remained high and there are strong pressures for further increases in prices. Towards the end of 1973 Mondi successfully negotiated to supply additional tonnages of newsprint to South African consumers at a price significantly higher than under the previous contract.

The Group's forest interests were further expanded in 1973 and early in 1974 by the acquisition of additional shares in Forest Industries and Veneers, to bring our holding to 94 per cent, and in Bruynzeel Plywoods, in which the Group now holds 66 per cent. The Group also acquired the entire issued share capital of The Natal Tanning Extract Company, with the result that our holdings of afforestable land in the Republic and Swaziland have risen to 164 000 hectares.

In 1973 Anglo American Industrial Corporation increased its investment in Freight Services Holdings to a controlling interest. Freight Services in turn acquired the buying and confirming business of Ewing, McDonald & Company, and so strengthened its ability to offer a comprehensive range of services in the international movement of goods.

The AE & CI group had a very successful year, with all its major divisions showing improvements. Group profit after tax increased by R2,9 million to R23,9 million in 1973 and for the fifth successive year the dividend was increased—on this occasion from 15 to 16 cents a share. These excellent results were achieved in spite of the effects of world-wide inflation on the availability and price of many commodities, effects which were greatly accentuated later by the action of the oil-producing states. This year, which is the fiftieth anniversary of AE & CI, the company will be commissioning a large new ammonia plant near Johannesburg, with a capacity of 300 000 tons a year. The decision, in the early stages of planning, to make this a coal-based plant will now be of still greater assistance in containing the escalation of fertiliser costs.

UNITED KINGDOM

The consolidated earnings of our London associate, Charter Consolidated, fell from £13,9 million to £12,4 million in the year to 31st March 1973. Losses were sustained by the associated companies, Somima and Beralt, and Charter's taxation charge increased because its U.K. income was greater and the losses of its associated companies do not qualify for tax relief. However, in the six months to 30th September 1973 Charter's earnings increased to £7,6 million from £5,9 million in the same period of the previous year. The profits after tax of Cape Asbestos, Charter's principal industrial subsidiary, were £230 000 higher in 1973 at £2,86 million.

The Cleveland Potash mine in Yorkshire came into production last October and output will build up to the rated capacity of one million tons a year early in 1975. Prices of potash have remained firm. The Somima copper mine in Mauritania reached its revised rate of production, which, coupled with the higher prices of copper, resulted in a considerable improvement in operating results during 1973. The Beralt mine in Portugal increased its production of wolfram and reduced unit costs. I am pleased to say that market prices of wolfram, after a long period of depression, are now showing signs of recovery.

In Zaïre the feasibility studies completed by Société Minière de Tenke Fungurume demonstrated the technical and economic viability of a major mining project in the Shaba region, capable of producing 130 000 tons of copper a year. Negotiations are now under way in regard to the financial arrangements, and if these are successful and a decision is taken to proceed, construction of a plant and ancillary facilities will begin. Our plans envisage the start of production in the second half of 1977.

Drilling for oil in the North Sea is expected to start in the middle of this year on one of the two blocks in which Charter has a participation.

CANADA

Hudson Bay Mining and Smelting, in which our associate Anglo American Corporation of Canada (Amcan) now holds a 35 per cent interest, realised record earnings during a year of rising prices for copper, zinc, potash, silver, gold and oil. Net earnings were $44,6 million, or $4,93 a share, and the dividend was raised from 80 cents to $2,00 a share. These excellent results have continued, with earnings in the first quarter of this year rising to $1,17 a share from 99 cents a share in the same quarter of 1973. Amcan's interest in Hudson Bay was increased from 28 per cent by the sale to Hudson Bay of a controlling interest in Western Decalta Petroleum, a transaction which consolidates our Group's North American oil and gas interests. Hudson Bay, through its 55 per cent-owned subsidiary, Francana Oil and Gas, already has a substantial involvement in this industry. One of Francana's more interesting investments is its 30 per cent holding in Trend Exploration, which is now producing oil from its

Indonesian discoveries at the rate of some 50 000 barrels a day. Hudson Bay's sylvite potash division, the newest and most mechanised of the Saskatchewan potash producers, had a successful year and expects to operate at or near full productive capacity in 1974.

Amcan's profit increased to $23 million from $2,85 million in 1972. The main reason for this considerable improvement was the increased earnings of Hudson Bay, though the figures also reflect certain major changes in accounting methods, particularly the introduction of the equity method of accounting for effectively controlled interests. During the year Amcan sold certain of its larger investments which were not related directly to natural resources, and its net asset valuation at 31st December 1973, taking all quoted investments at market value, was $131 million, or $13,20 a share.

An interesting business in which the Group is participating in Canada involves the formation, with Barringer Research, of joint companies to exploit Barringer's airborne geochemical survey system called Airtrace. We are hopeful that this system will represent a major advance in exploration techniques.

AUSTRALIA

In November I was able to spend a week in Australia where Australian Anglo American maintains a major prospecting programme. The current restrictions affecting joint ventures with Australian partners and the uncertainties of the Labor Government's minerals policy have led to a certain change in emphasis in the region, with a relatively smaller proportion of present efforts being devoted to mainland Australia and a greater proportion to surrounding areas of the south-west Pacific. Nevertheless we remain active in all states of Australia and in Papua New Guinea and Fiji. We have had some encouragement from porphyry copper projects on Manus Island, in joint venture with Australian partners, and at Namosi in Fiji, in joint venture with American Metal Climax who manage the project. Work will continue on each of these projects throughout 1974.

ZAMBIA

In August 1973 the President of Zambia announced certain measures which when fully implemented will result in the Zambian Government playing a more direct part in the administration of the mining industry. Consequently, the managerial, consultancy and metal marketing agreements that our Group entered into with Nchanga Consolidated Copper Mines (NCCM) for the ten years from 1970 are in the process of being renegotiated. In terms of the announcement the outstanding ZIMCO loan stock 1982 and 1978 bonds were redeemed. The 100 per cent taxation allowances on capital expenditure which had applied since 1st April 1970 were withdrawn, resulting in an increased taxation liability. Dividends payable by NCCM and Roan Consolidated Mines became subject to Zambian Exchange Control regulations and to a withholding tax of 20 per cent.

Production of finished copper by NCCM is expected to increase by some 45 000 tons to 453 000 tons in 1974, despite delays in the commissioning of several major projects. At Chingola production from the new leach, solvent extraction and electro-winning plant started in December and will build up until the plant is fully operational in September 1974. At NCCM's Broken Hill division good progress is being made with the installation of Waelz kilns, which will make it possible to treat hitherto refractory ores and residues, and so prolong the life of the operation substantially. The project should come on stream in 1975.

The Minister of Mines and Industry announced in March that NCCM would re-open the Kansanshi Mine. Mining is scheduled to begin in the second half of 1976 at an initial rate of 16 000 tons of contained copper a year. A treatment plant will be commissioned at Kansanshi towards the end of 1977 when production will be increased to some 26 000 tons of copper a year. At this rate the mine will have a life of about 20 years.

The record copper price of £1 135 a ton established on the London Metal Exchange on 5th December 1973 has since been eclipsed and on 1st April copper reached £1 400 a ton. Prices for lead and zinc on the London Metal Exchange have reacted from the record levels of £330 and £938 a ton reached early in December. However NCCM, like other major producers, sells its zinc at the producer price, which in March was raised to £330 a ton.

After a poor season last year, favourable rains are expected to yield good crops from our farm project at Chisamba East. This is the largest single investment of Zamanglo Industrial Corporation and further expansion plans are being considered.

RHODESIA

The operations of our companies in Rhodesia continued to be as satisfactory as the circumstances allow. The Rhodesian Nickel Corporation is opening another small nickel mine which will augment the supply of concentrates to its smelter and refinery at Bindura. Our timber and agricultural interests have had a reasonably good year and record rains have been experienced. The Wankie Colliery brought its No. 4 colliery into operation in 1973, the year which marked the 50th anniversary of the company. A large chrome-bearing area on the Great Dyke has been acquired, and more detailed exploration work on it will be started in the near future. Our extensive prospecting programme is being continued.

BOTSWANA

The Group's interests in Botswana have made further progress. Bamangwato Concessions, in which we are partners with American Metal Climax and the Botswana Government, brought its nickel-copper mine at Selebi-Pikwe into production earlier this year. The Group colliery at Morupule, which was established to supply Selebi-Pikwe, came into operation and our new headquarters in Gaborone, Botsalano House, was completed. As was to be expected the highly sophisticated treatment plant at Selebi-Pikwe has had its share of teething

troubles, which are in process of being put right. The mine and smelter form the heart of the Shashe project, the infrastructure for which consists of a dam on the Shashe river and pipeline to the mine; a 60MW coal-fired power station; rail and road connections to the main north-south network; and a town designed initially for 11 000 people. The increasing interest of foreign companies in mineral exploration in Botswana, particularly for coal, has caused the government to review its policy and legislation, as a result of which the terms of new prospecting licences are more stringent than hitherto.

GROUP EMPLOYMENT PRACTICES

In my statement last year I dealt at some length with the wages, conditions of service and housing of our Black employees in South Africa, and I am pleased to report that further significant advances have been made in the last 12 months. The wages of the 150 000 Black workers who are employed on the gold and coal mines of the Group were increased on average by 60 per cent in 1973. On the diamond mines of the De Beers group, to which the Corporation acts as technical consultants, wages were increased, on average, by nearly 70 per cent. In our industrial and agricultural enterprises there was a general improvement in wages across the board. In mining and in industry generally progress is being made in developing better opportunities for Black workers. The Group's training facilities are being expanded substantially to meet our more sophisticated requirements, and we have been encouraged by the government's attitude to the provision of training centres for Blacks in the urban areas. Higher standards of accommodation are to be introduced for our Black mineworkers, and much thought has already been given to the best ways of achieving this on the mines that are now being planned. Improvements and renovations on our existing mines will take time, but it is an earnest of our approach that the gold mining companies of the Group have allocated R60 million for this purpose.

Our programmes and the concepts behind them are continuously evolving, and the priorities will change from time to time. One continuing concern is the level of minimum wages in an industry as labour-intensive as gold mining. The earlier advances in real wages have been eroded by the high rate of inflation that has prevailed in the last year and this, and the degree of poverty in the homelands, adds urgency to the need for further and substantial improvements in the minimum wage. We remain committed to the principle of paying a humane and civilised wage to every worker, while seeking to establish proper rewards and incentives for the more skilled workers as they progress up the scale. Another priority is the need to ensure that our systems of communication, to and from employees, are fully responsive to present needs, and capable of adaptation to the changes that will come. We have not hesitated to take account of the views of outside consultants in this field, and certain experimental work is being done. To combat the disadvantage of sometimes being too close to our problems we have invited a number of people, Black and White, who have a contribution to make in the field of industrial relations, to constitute a panel whose advice we can seek from time to time. We are grateful that they have agreed to help us in this broad and developing area.

A further concern is the migratory labour system. I make no pretence of liking the system, which has serious social and economic disadvantages, but when one considers the number of people involved, and where they come from, one has to recognise that the problems are so large, so complex and so related to government policies both inside and beyond South Africa's borders, that there is no realistic prospect of phasing the system out in the foreseeable future. The mining industry alone employs half a million Black people, the majority of whom are not South Africans. This does not mean, however, that the scope and pervasiveness of the migratory system cannot in some ways be reduced, nor some of its ill-effects alleviated. In Kimberley, the De Beers' Mine no longer depends on migrants but draws all its Black labour from the municipal township, and the policy is that the other Kimberley mines should do so in due course, as new employees are needed and can be trained. Admittedly, the numbers involved on the diamond mines are quite small, and Kimberley is a special case in that, unlike the new mining areas, it is no longer dependent on the mining industry and can support a large and long-established community.

The solid progress that we have achieved has heightened our concern and sadness at the senseless acts of violence that have occurred on some of our mines in the past year. These outbreaks have led to loss of life, physical injury and destruction of property, to say nothing of the effect upon mining operations. As a result large numbers of Black employees have returned to their homes, and the loss of earnings cannot but cause hardship to their families and their communities. We are well aware that what our Group is attempting to do has profound implications for individuals, for human attitudes and tribal ways, and that changes as significant as those we are embarked upon can rarely be carried through without some friction, even though they are to the benefit of all. The violence to which I am referring, however, has in only one instance been related to any aspect of our policies, and that concerned a change in established differentials between the wages of two categories of workers at a shaft of Western Deep Levels gold mine last year. Exhaustive investigations into the more recent acts of violence that have occurred, mainly in the Welkom area, have produced no evidence that they were caused by dissatisfaction with wages or other conditions of service; the evidence from a variety of sources points overwhelmingly to inter-tribal disputes.

It has been of the greatest help, in these difficult times, that our senior officials, right across the Group, have responded so positively to what I regard as a challenge not only to our own companies but to South Africa as a whole. We have always known that real progress on a broad front can be achieved only if our senior officials are prepared to give our policies their unqualified

support, so that action is initiated by them without waiting for pressure from the centre. We have been getting this kind of support, as indeed we have right down the line of management and from the great majority of our workers.

SOCIAL RESPONSIBILITY

The policy of our Group has always been to support, on a substantial scale, charitable causes both in the narrow sense and in the broader fields of education, culture and social services. We believe that our policy is justified on sound business principles. The major companies of our Group do not distribute all their profits to their shareholders; they retain a substantial proportion for reinvestment in order to secure the long-term future of the enterprise. It seems both logical and sensible therefore that we should also invest a further part of our profits in endeavouring to conserve and improve the social environment in which we shall operate in the future. This is well-established business practice in many countries, notably the United States, where companies tend to devote a higher proportion of their profits to social purposes than we do and where—unlike South Africa—such donations are in the main allowable for tax.

For some years now the money that we have devoted to charitable purposes has been related to the dividends paid by Group companies, and with the increased profits that have been earned in the last year this expenditure will in any case increase. Nevertheless, in view of the social changes which are taking place in South Africa and of the opportunities that our higher profits present, we believe that the time is ripe to do more in this field, and to do it in a new way. The Group and its close associates have therefore decided to increase their expenditure to a significant extent, so that we can initiate and bring to fruition projects that will, we hope, pioneer new methods or demonstrate new lines of development in fields such as education, technical training and the socio-economic progress of rural areas. Our support for the other, more conventional, charitable activities will of course continue on an undiminished scale.

ORGANISATION

In the last few months we have embarked upon a major restructuring of our head office organisation. The growth and increasing complexity of the Corporation's business had resulted in the Executive Committee, whose primary role is to take decisions on major questions of policy and investment, spending a disproportionate amount of time on administrative matters. It was therefore decided to appoint an Operating Committee, consisting of Mr G. W. H. Relly (chairman), Mr J. Ogilvie Thompson and Mr G. H. Waddell, to assume responsibility for the day-to-day administration of the Corporation, particularly in regard to personnel development, finance, and the relationship of performance to the budgets of the operating divisions and Group companies. Its first tasks were to formulate methods of achieving a greater decentralisation of authority to those divisions, and a greater degree of integration between their administrative and technical functions.

A substantial restructuring of our corporate services and of the gold and coal divisions has already taken place. The operating divisions are now self-supporting in regard to many of the personnel services that they require, and other services may be transferred to them in due course. In the gold and coal divisions, initially, a number of appointments have been made which integrate technical and administrative responsibility. This policy will have the further advantage of creating wider management opportunities for members of our technical staff, without in any way affecting the independence of the professional services that are provided. We have also consolidated responsibility for the Corporation's fees and its budget, so as to strengthen control in these important revenue and expense areas. I am confident that the new arrangements will contribute materially to the efficiency and success of our activities.

DIRECTORATE

It was with great regret that your board accepted, in January, the resignations of three members, all of whom had served the Corporation with distinction in their particular spheres for many years. Mr D. O. Beckingham, who had been a director since 1956, was closely concerned with the development of our industrial interests and with the marketing of the entire base metal production of Group mines. Mr E. T. S. Brown, who joined the board in 1961, made a valuable contribution to the development of the industrial uses of diamond, together with the supporting research activities, and to the Group's interests in the construction field. Sir Frederick Crawford, who joined The British South Africa Company after a distinguished career in colonial administration, was appointed to the board in 1965, and represented our interests in Rhodesia at times of considerable difficulty in the country's relations with the outside world. I would like to welcome to the board Dr Z. J. de Beer, Mr E. P. Gush, Mr D. G. Nicholson and Mr N. F. Oppenheimer.

Chairman

44 Main Street
Johannesburg
3rd May 1974